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**Before the
Federal Communications Commission
Washington, D.C. 20554**

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In the Matter of)
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Federal-State Joint Board on)
Universal Service)

CC Docket No. 96-45

DISSENTING STATEMENT OF

CHAIRMAN JULIA JOHNSON AND CHAIRMAN SHARON NELSON

April 22, 1997

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Separate Statement of
Chairman Julia Johnson
and
Chairman Sharon Nelson
Dissenting Opinion

On March 26, 1997, the State members of the Federal-State Joint Board on Universal Service filed the first Report on the Use of Cost Proxy Models (First Report). The State members expressed continued concerns about the accuracy of the proposed cost proxy models, the Hatfield 3.1 and the BCPM, and indicated that further analysis needed to be performed before a credible selection of the appropriate model could be made. The First Report stated that the State members would recommend a specific model in a subsequent report. On Monday, April 21, 1997, a second report on the Use of Cost Proxy Models (Second Report) was filed by the majority of State members. We respectfully dissent from the Second Report of our state colleagues, and our dissent is due to the lack of convincing evidence for the selection of either BCPM or the Hatfield 3.1 as the appropriate model.

In the Second Report, the BCPM is selected as the platform for the model ultimately used to compute universal service (US) support to be received by eligible local exchange carriers serving high cost areas. In addition to recommending specific model inputs, and how the benchmark should be established, the Second Report identifies modeling issues that must be resolved before a model can be used to determine US funding levels. We do not believe that it is appropriate or necessary to select either model as the platform at this time due to the unreliability of the models.

A critical element for evaluating the appropriateness of each model was the ability of each model to satisfy the eight criteria set forth in the Joint Board's Recommended Decision. The State staff's thorough analysis of the eight criteria by each model reveals that neither model is substantially superior in meeting the criteria. Furthermore, the analysis revealed that both models are unable to satisfy the requirements in significant ways. While we continue to support the use of the criteria to inform the model selection process, in our view the results of comparing the models' satisfaction the criteria support the conclusion that it is inappropriate and premature to select either model, as opposed to supporting the selection of the BCPM. We would hope that the critique included in this section of the Second Report would be carefully reviewed as it provides valuable information for the further refinement of the models.

The continued inability of either model to satisfy criterion seven causes us significant concern and merits specific explanation. Criterion seven requires that:

The model and all underlying data, formulae, computations, and software associated with the model should be available for all interested parties for review and comment. All underlying data should be verifiable, engineering assumptions reasonable, and outputs plausible.

Revisions to the models have been made constantly and sources used for the input data continue to evolve. While we appreciate the necessarily fast-paced changes to the models, many at the request of the staff and the Joint Board, it is critical that the data be publicly available and that the outputs be verified before a model can be responsibly selected.

Another example of the existing uncertainty of the models is the inability of either model to produce accurate estimates of total access line counts on a census block group (CBG) basis. For many areas there are significant deviations between the actual number of access lines in service and the number of access lines estimated by the models. Until one or both of the models comes close to getting the number of access lines right, we are not comfortable relying on the cost estimates produced. The Second Report highlights other deficiencies in both models, such as the assumptions regarding the dispersion of loops, computation of land and buildings investment, and estimation of plant-specific operating expenses.

Some parties suggest that the Federal Communications Commission (FCC) is under statutory mandate to make all decisions regarding universal service to ensure that specific and predictable support is available on a competitively neutral basis by May 8, 1997. We would suggest, instead, that Section 254(a)(2) of the Telecommunications Act of 1996 clearly states that the FCC must only establish rules by May 8, 1997 which "...include a definition of the services that are supported by the Federal universal service support mechanisms and a specific timetable for implementation." While we agree that new support mechanisms should be implemented as quickly as possible, we do not believe that every detail must be resolved at this point. It is more important to establish a timetable to allow the development of mechanisms which will accurately compensate companies for the provision of universal service and ensure the continued affordability of basic rates for consumers.

Rather than commit to a specific cost proxy model as the platform at this time, we believe that it would be better to continue the healthy rivalry that exists between the competing model sponsors. Having two models facilitates the identification of problem areas and enables the full breadth of discussion to occur on the reasons for the discrepancies among the models. While this process has occasionally been haphazard, on balance, it has resulted in significant progress towards developing a model in a relatively short time. In our opinion, industry representatives, the FCC, and the states should also join together in further research and development efforts to ensure a thorough evaluation of unresolved modeling issues while not precluding an examination of other alternatives.

As we stated in our separate statement in the Joint Board's Recommended Decision, we believe that the interrelationship between access charge reform, universal service, separations, and interconnection must be considered when reforming the telecommunications policies to achieve the dual national goals of competitive telecommunications markets and universal service. As federal and state regulators have worked collaboratively over the past year to create the regulatory environment needed to facilitate the achievement of these goals over the past year, the need for continued coordination of federal and state policies has become even more apparent.

As individual state commissions complete various pricing and costing proceedings, we hope that the results of those state proceedings will be useful in crafting the appropriate universal service mechanisms.

Accordingly, we respectfully dissent on the Second Report by the majority of State members and particularly with respect to the selection of a cost proxy model. While we dissent on the findings of the majority of the State members, we would like to publicly acknowledge and thank the state staff of the Joint Board for their efforts in providing the State members with the analysis and information necessary to make informed decisions on these complicated issues.